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PAGE 01 STATE 076991

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CORRECTED COPY (PARA 3E LINES 3 & 4)

E.O. 11652: N/A

TAGS: ETRD, EFIN, FR, OECD

SUBJECT: FRENCH CREDIT MEASURES TO PROMOTE EXPORTS

REF: (A)PARIS06939(B) OECD PARIS 05980 (C) OECD PARIS

07287 (ALL REFS ARE NOTAL)

1. RECENT ENLARGEMENT OF THE FRENCH EXPORT INVESTMENT
FACILITY (REF A) AMPLY JUSTIFIES AN EFFORT TO SUBJECT THIS
EXPORT STIMULATING DEVICE TO MULTILATERAL REVIEW. HOWEVER,
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PAGE 02 STATE 076991

FRENCH REFUSAL TO CONSULT ON THIS MEASURE IN THE TRADE

COMMITTEE CONTEXT (REF B) RAISES AN IMPORTANT INSTITUTIONAL/PROCEDURAL ISSUE. IN VIEW OF OUR DESIRE TO STRENGTHEN OECD CONSULTATION PROCEDURES AND THE OBVIOUS RELATIONSHIP OF THE FRENCH CREDIT MEASURES TO TRADE, OUR INITIAL OBJECTIVE IS TO REVERSE THE FRENCH POSITION ON CONSULTATION.

2. IN VIEW OF THE UNCERTAINTY OF WIDESPREAD SUPPORT IN THE OECD AND THE COMPLICATED PROCEDURAL HISTORY OF THE ISSUE NOTED BY USOECD IN REF C, WE BELIEVE THE BEST COURSE IS A TWO-STAGE APPROACH BEGINNING WITH BILATERAL DISCUSSIONS WITH THE GOF FOLLOWED BY APPROPRIATE ACTION IN THE OECD. WE HOPE AS A RESULT OF EITHER THE BILATERAL REPRESENTATIONS OR PRESSURES GENERATED SUBSEQUENTLY WITHIN THE OECD THAT THE FRENCH WILL AGREE TO CONSULT. IF THE FRENCH REMAIN FIRM IN THEIR POSITION, AND WE ARE UNABLE TO GENERATE ENOUGH SUPPORT IN THE OECD TO TURN THE FRENCH AROUND, WE WOULD MAKE A STRONG STATEMENT FOR THE RECORD IN ONE OF THE OECD FORA POINTING OUT THE DISTORTING EFFECTS OF THE CREDIT FACILITY ON TRADE AND REGRETTING THE DAMAGE THAT HAD BEEN DONE TO THE PRINCIPLE OF CONSULTATION.

3. FOR EMBASSY PARIS: EMBASSY IS REQUESTED TO APPROACH GOF AT APPROPRIATE LEVEL TO EXPRESS OUR CONCERN OVER THE ENLARGEMENT BY 75 PERCENT OF THE FRENCH CREDIT MEASURES AND FRENCH RELUCTANCE TO AGREE TO CONSULTATIONS IN THE OECD TRADE COMMITTEE ON THESE MEASURES. EMBASSY MAY WISH TO DRAW ON THE FOLLOWING POINTS IN ITS PRESENTATION:

A. THE CREDIT MEASURES ARE CLEARLY DESIGNED TO ENCOURAGE EXPORTS AS CONFIRMED BY MINFIN ANNOUNCEMENT (REF A PARA 2A). THE FACT THAT THE BENEFITS OF THE CREDIT MEASURE ARE TIED TO INCREASING THE PROPORTION OF EXPORTS TO TOTAL SALES PUTS THIS BEYOND DOUBT.

B. THE FACILITY HAS BEEN SOLD TO FRENCH INDUSTRY (SEE MOCI NO. 109 OF OCT. 28, 1974 PG. 9 AND NO. 118 OF DEC. 30, 1974 PG. 139) AS AN EXPORT-STIMULATING DEVICE. OUR PRELIMINARY ANALYSIS INDICATES THAT POTENTIAL EFFECTS ON TRADE ARE SIGNIFICANT. THE ENLARGED FACILITY WILL SUPPORT INVESTMENT OF 2.1 BILLION DOLLARS (1 DOLLAR EQUALS LIMITED OFFICIAL USE

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PAGE 03 STATE 076991

FF4.6), WHICH WILL BE ABOUT 3 PERCENT OF TOTAL 1975 INVESTMENT IN PLANT AND EQUIPMENT.

C. THE OBJECTIVE OF THE OECD COUNTRIES, TO WHICH THE GOF HAS AGREED, IS TO REFRAIN FROM INSTITUTING POLICIES WHICH ARTIFICIALLY PROMOTE EXPORTS OR RESTRAIN IMPORTS DURING THE PRESENT ECONOMIC DIFFICULTIES WHICH AFFECT ALL OF US.

D. THE UNITED STATES THEREFORE REGRETS THAT THE GOF HAS CHOSEN THIS MOMENT TO INCREASE THE EFFECTS OF THE CREDIT MEASURE ON EXPORTS BY INCREASING ITS SIZE BY 75 PERCENT.

E. WE REGARD GOF RELUCTANCE TO CONSULT IN THE OECD ON A MATTER OF SUCH OBVIOUS RELEVANCE TO TRADE AS DAMAGING TO OECD PROCEDURES. SHOULD THEY REPLY THAT THE BRIEF EXCHANGE WITH THE UK IN THE JAN 21 MEETING (REF C, PARA 5) HAD CLOSED THE MATTER, EMBASSY SHOULD RESPOND THAT IN OUR VIEW NOTHING IN OECD PRACTICE OR PROCEDURES FORECLOSES THE ABILITY OF THE OECD TO EXAMINE THE MEASURES IN THE LIGHT OF CHANGED CONDITIONS, OR FREES THE GOF FROM ITS OBLIGATION TO BE FORTHCOMING ACCORDING TO THE ESTABLISHED PRINCIPLES OF THE OECD.

F. WHILE WE RECOGNIZE THAT THERE MAY BE DIFFERENCES OF VIEW RE THE RELATIONSHIP OF THE FRENCH MEASURES TO THE TRADE PLEDGE, WE BELIEVE THAT EVEN IF THERE WERE NO PLEDGE, THE FRENCH MEASURES ARE CLEARLY CONSULTABLE.

H. SHOULD THE FRENCH REPEAT THEIR OFFER TO CONSULT IN AN "APPROPRIATE FORUM" (REF B, PARA 5), SUGGEST YOU REPLY BY RESTATING OUR FIRM VIEW THAT THE TRADE COMMITTEE IS THE PROPER FORUM FOR CONSULTATIONS ON THIS SUBJECT, BUT THAT WE WOULD OF COURSE, BE INTERESTED IN KNOWING WHAT FORUM THE GOF-CONSIDERS "APPROPRIATE."

4. FOR USOECD: MISSION IS REQUESTED TO SOUND OUT OTHER DELEGATIONS INFORMALLY TO DETERMINE THEIR REACTION TO CURRENT FRENCH ATTITUDE AS WELL AS THEIR PLANNED COURSE OF ACTION IF GOF PERSISTS IN ITS POSITION. MISSION SHOULD LIMITED OFFICIAL USE

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PAGE 04 STATE 076991

STRESS THAT SUPPORT FOR OUR ATTEMPT TO SECURE GOF AGREEMENT TO CONSULT IN THE TRADE COMMITTEE DOES NOT COMMIT OTHER DELEGATIONS TO SUPPORT OUR POSITION ON THE MERITS OF THE CREDIT MEASURE.

5. FOR THE INFORMATION OF INFO ADDRESSEES WHO DID NOT RECEIVE REFTELS: FRENCH MEASURES CONSIST OF INTEREST SUBSIDIES AND IMMUNITY FROM CREDIT CEILINGS ON CERTAIN LOANS USED TO PAY FOR INVESTMENT IN PLANT AND EQUIPMENT. IN ORDER TO QUALIFY FOR SUCH LOANS, THE BORROWER MUST UNDERTAKE TO INCREASE HIS PROPORTION OF EXPORT SALES TO TOTAL SALES BY FIVE PERCENTAGE POINTS WITHIN THREE YEARS. PENALTIES WILL BE ASSESSED FOR FAILURE TO MEET THE EXPORT TARGET. INGERSOLL

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